

DIRECT TESTIMONY AND EXHIBITS OF
CHRISTINA L. SEALE
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2021-153-S

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

2 A. My name is Christina L. Seale. My business address is 1401 Main Street, Suite
3 900, Columbia, South Carolina 29201. I am employed by the South Carolina Office of
4 Regulatory Staff (“ORS”) as the Audit Coordinator of the Audit Department.

5 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

6 A. I received a Bachelor of Science Degree with a major in Accounting and a minor
7 in Computer Systems and Applications from Columbia College. Prior to my employment
8 with ORS, I performed agreed-upon procedures engagements and statewide single audits
9 of various South Carolina state agencies for the South Carolina Office of the State Auditor.
10 In 2005, I joined ORS and since then have participated in cases involving the regulation of
11 telecommunications, electric, natural gas, radioactive waste disposal, water and wastewater
12 utilities.

13 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC SERVICE**
14 **COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?**

15 A. Yes. I have previously testified before the Commission.

16 **Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?**

17 A. ORS represents the public interest as defined by the South Carolina General
18 Assembly in S. C. Code Ann. § 58-4-10 as:

[T]he concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING, AND HOW DOES YOUR DIRECT TESTIMONY REPRESENT THE PUBLIC INTEREST?

A. The purpose of my direct testimony is to set forth ORS's findings and recommendations resulting from ORS's examination of the Application of Palmetto Wastewater Reclamation, Incorporated ("PWR" or "Company") in Docket No. 2021-153-S ("Application"). The Application was filed on June 16, 2021. By discussing ORS's examination of the books and records of the Company and recommending appropriate adjustments supported by applicable regulatory, accounting, and audit standards, my testimony promotes the public interest.

Q. WAS THE REVIEW PERFORMED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes. The review to which I testify was performed by me or under my supervision.

Q. PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE EXAMINATION OF THE APPLICATION OF PWR.

A. ORS's examination of the Company's Application consisted of three major steps. In step one, ORS verified that the operating experience, reported by the Company in its Application, was supported by PWR's accounting books and records for the twelve months ending December 31, 2020 ("Test Year"). In the second step, ORS tested the underlying transactions in the books and records for the Test Year to ensure that the transactions were adequately supported, had a stated business purpose, were allowable for ratemaking

purposes, and were properly recorded. Lastly, ORS's examination consisted of adjusting, as necessary, the revenues, expenditures, and capital investments to normalize the Company's operating experience and rate base in accordance with generally accepted regulatory principles and prior Commission orders.

Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR TESTIMONY.

A. I have attached the following exhibits to my testimony relating to the Application:

- Exhibit CLS-1: Operating Experience, Rate Base and Rate of Return
- Exhibit CLS-2: Explanation of Accounting and Pro Forma Adjustments
- Exhibit CLS-3: Computation of Depreciation and Amortization Expense
- Exhibit CLS-4: Computation of Income Taxes
- Exhibit CLS-5: Cash Working Capital
- Exhibit CLS-6: Weighted Cost of Capital
- Exhibit CLS-7: Operating Experience, Rate Base and Rate of Return Reflecting the Company's Proposed Increase

These exhibits were either prepared by me or were prepared under my direction and supervision in compliance with recognized accounting and regulatory procedures for wastewater utility rate cases and prior Commission Orders. These exhibits show various aspects of PWR's operations and financial position.

Q. PLEASE DESCRIBE THE FORMAT OF EXHIBIT CLS-1 AND ELABORATE ON THE CALCULATIONS.

A. Exhibit CLS-1 details PWR's operating experience, rate base, and rate of return for the Test Year. The exhibit's format is designed to reflect the Company's Application per books, ORS's proposed accounting and pro forma adjustments necessary to normalize the

results of the Company's Test Year operations and ORS's adjustments necessary to achieve the return on equity recommended by ORS witness Garrett.

Column (1) details the Application per book amounts reported by PWR for the Test Year. ORS verified total operating revenues of \$3,549,800, total operating expenses of \$2,239,303, other income and deductions of \$22,356, and net income for return of \$1,332,853 to the Company's books and records. The per book rate base of \$10,849,156 produced a return on rate base of 12.29%. As shown on Exhibit CLS-6, the resulting return on equity was 17.97%.

Column (2) details ORS's proposed accounting and pro forma adjustments designed to normalize the Application per books. An explanation of each adjustment is contained in Exhibit CLS-2.

Column (3) details ORS's calculation of a normalized Test Year for PWR by adding columns (1) and (2). After the accounting and pro forma adjustments, net income for return of \$624,299 was computed using total operating revenues of \$3,693,555, less total operating expenses of \$3,069,256. Total rate base of \$11,504,593 produced a return on rate base of 5.43%. As shown on Exhibit CLS-6, the resulting return on equity was 7.06%.

Column (4) details ORS's adjustments to revenues, expenses, and taxes for the return on equity recommendation of ORS witness Garrett. An explanation of each adjustment is contained in Exhibit CLS-2.

Column (5) details the effect of ORS's adjustments by adding columns (3) and (4). Net income for return of \$730,224 was computed using total operating revenues of \$3,810,555, less total operating expenses of \$3,100,211, plus amortization of Excess Deferred Income Taxes ("EDIT") of \$19,880. Total rate base of \$11,504,593 produced a

return on rate base of 6.35%. As shown on Exhibit CLS-6, the resulting return on equity was 8.90%.

Q. PLEASE EXPLAIN THE ADJUSTMENTS IN EXHIBIT CLS-2.

A. For comparative purposes, ORS's and PWR's proposed adjustments are both presented in Exhibit CLS-2.

Adjustment 1 – Operating Revenues: ORS's total operating revenue adjustment is \$143,755. This adjustment is comprised of the following operating revenue adjustments:

Adjustment 1A – Residential Revenues: Details of this adjustment are reflected in the direct testimony of ORS witness Hunnell.

Adjustment 1B – Mobile Home Revenues: Details of this adjustment are reflected in the direct testimony of ORS witness Hunnell.

Adjustment 1C – Commercial Revenues: Details of this adjustment are reflected in the direct testimony of ORS witness Hunnell.

Adjustment 1D – Multiple Family Dwelling Revenues: Details of this adjustment are reflected in the direct testimony of ORS witness Hunnell.

Adjustment 1E – Miscellaneous Revenues: Details of this adjustment are reflected in the direct testimony of ORS witness Hunnell.

Adjustment 2 – Operating Expenses: ORS's total operating expense adjustment is \$666,862. This adjustment is comprised of the following operating expense adjustments:

Adjustment 2A – COVID-related Expenses: The Company proposes to remove COVID-related expenses of \$3,106 in its Application. Subsequent to filing the Application the Company noted that this adjustment was made in error as the Company never incurred the expense. ORS verified this amount was not recorded

on the Company's books and records. Therefore, ORS does not propose an adjustment.

Adjustment 2B – Contract Services-Management Fee: The Company proposes to remove expenses related to its contract services management fee of \$186,776, as these costs are now covered by the Company's shared overhead allocation (ORS Adjustment 2I, Company Adjustment 10). ORS accepts the Company's adjustment of (\$186,776).

Adjustment 2C – Contract Services-Maintenance Expense & Operator Licenses: The Company proposes to remove expenses related to its contract services maintenance costs of \$9,101, as these costs are now covered by the Company's shared overhead allocation. The Company also proposes adding ten months of costs for new operator licenses of \$1,550, as only two months were included in the Test Year. ORS accepts the Company's adjustment of (\$7,551).

Adjustment 2D – Transportation Expenses: The Company proposes to remove transportation expenses of \$12,269, as these costs are now covered in the Company's shared overhead allocation. ORS accepts the Company's adjustment of (\$12,269).

Adjustment 2E – Insurance Expenses: The Company proposes to remove vehicle and general liability insurance expenses of \$27,070, as these costs are now covered by the Company's shared overhead allocation. ORS accepts the Company's adjustment of (\$27,070).

Adjustment 2F – Performance Bond: The Company proposes to include the most recent performance bond insurance premium of \$7,000. ORS accepts the Company's adjustment of \$7,000.

Adjustment 2G – Rate Case Expenses: The Company proposes an adjustment of \$13,334 to amortize rate case expenses. The Company's adjustment includes estimated rate case expenses and an unamortized prior rate case expense balance with a two-year amortization period. ORS proposes an adjustment of (\$66,174) to include allowable, known and measurable current rate case expenses as of August 31, 2021 of \$41,477 amortized over three years, less the per book rate case expense amortization of \$80,000. ORS determined that the prior rate case expense balance was fully amortized as of May 2021, as Order No. 2019-314 was issued May 14, 2019.

Adjustment 2H – Bad Debt Expense: The Company proposes to adjust bad debt expense using a bad debt percentage of 1% of total revenues. The ORS Water Operations Department reviewed the Company's bad debt percentage. ORS applied the 1% bad debt percentage to total revenues after accounting and pro forma adjustments, less per book bad debt expense of \$35,469, which results in ORS's proposed adjustment of \$1,467.

Adjustment 2I – Miscellaneous Expenses: The Company proposes to allocate a portion of corporate overhead and shared costs to PWR totaling \$955,039. ORS reviewed the Company's adjustment and proposes to remove \$38,329, which results in ORS's proposed adjustment of \$916,710.

PWR's adjustment allocates expenses from four separate cost pools. The cost pools consist of:

1. The regional cost pool, which is allocated between PWR, South Carolina Water Utilities-PUI, Incorporated ("PUI") and Florida companies based on their equivalent residential customers ("ERCs");
2. The South Carolina Utility Systems, Inc. ("SCUS") cost pool, which is allocated between PWR and PUI, based on their ERCs;
3. The Southeast Utility Systems, Inc. ("SEU") cost pool, which is allocated between PWR, PUI, Kiawah Island Utilities, Inc. ("KIU"), South Carolina Water Utilities, Inc. ("SCWU"), and Alabama companies based on their ERCs; and
4. The SouthWest Water Company ("SWWC") cost pool, which is allocated using a 2020 Test Year three-factor allocation methodology.

The cost pools and ORS's adjustments to PWR's allocation of costs are described below:

1. For the regional allocation the Company proposes to use the ERCs as of December 31, 2020. ORS changed the PWR ERCs to agree to the updated ERCs as of December 31, 2020 provided by the Company in response to ORS Information Request ("IR") 3-6. This change affected PWR's Regional ERCs allocation factor for a difference of (\$1,483). ORS also reviewed the Company's annualized salary adjustment and corrected the FICA-Social Security calculation, dental insurance, and capitalized salaries for an adjustment to shared employee costs of (\$6,272). ORS also corrected one of the formulas on the worksheets provided by the

Company supporting the regional adjustment for an adjustment of (\$92). In addition, ORS proposes an adjustment of (\$12,799) to remove nonallowable expenses not excluded by the Company as part of its overhead adjustment. These consist of expenses not related to or no longer related to PWR, gifts, expenses related to fines, and expenses for which insufficient documentation was provided. Therefore, ORS proposes a total adjustment of (\$20,646) to PWR's allocation of regional costs.

2. For the SCUS allocation the Company proposes to use the ERCs as of December 31, 2020. ORS changed the PWR ERCs to agree to the updated ERCs as of December 31, 2020 provided by the Company in response to ORS IR 3-6. This change affected PWR's SCUS ERCs allocation factor for a difference of (\$687). ORS also reviewed the Company's annualized salary adjustment and corrected the health insurance, dental insurance, and capitalized salaries for an adjustment to shared employee costs of \$2,905. Therefore, ORS proposes a total adjustment of \$2,218 to PWR's allocation of SCUS costs.

3. For the SEU allocation the Company proposes to use the ERCs budgeted for 2021 for PWR, PUI, KIU, SCWU, and Alabama companies. ORS changed the PWR, PUI, KIU, SCWU, and Alabama companies' ERCs to agree to the updated ERCs as of December 31, 2020 provided by the Company in response to ORS IR 3-6. In addition, ORS included the ERCs for Florida as of December 31, 2020 in the calculation of the allocation factors.¹ These changes affected PWR's SEU ERCs

¹ ERCs for South Carolina Water Utilities-CUC, Inc. ("CUC") could also have been included in the calculation of the allocation factors. ORS did not include the ERCs for CUC as that information was not requested by ORS during its review. The effect on the allocation of SEU costs to PWR if CUC ERCs were obtained and included is immaterial.

allocation factor for a difference of (\$1,999). ORS reviewed the Company's annualized salary adjustment and corrected the FICA-Social Security calculation, health insurance, dental insurance, and capitalized salaries for an adjustment to shared employee costs of (\$417). Therefore, ORS proposes a total adjustment of (\$2,416) to PWR's allocation of SEU costs.

4. For the SWWC allocation the Company provided the SWWC Cost Allocation Manual ("CAM"), which provides an explanation of services performed and the methods used to allocate indirect costs to the operating businesses. The CAM is included as Attachment MSH-1 of Company witness Hafeez's direct testimony. ORS reviewed the CAM and verified the methods specified in the CAM were followed by the Company to calculate the allocation of costs to PWR. Corporate services performed by SWWC for its operating businesses include executive, legal, information technology, human resources, facilities, and finance functions. ORS will continue to examine, test, and analyze the corporate services performed, the costs incurred by SWWC, and the allocation of those costs to PWR and other South Carolina subsidiaries in future dockets to ensure they continue to be reasonable, beneficial for customers, and appropriate for recovery in rates.

For the SWWC allocation the Company proposes to use the 2020 Test Year three-factor allocation methodology as discussed in detail in Company witness Hafeez's direct testimony. ORS accepts the Company's methodology and proposes to include in the three-factor allocation calculation additional SWWC subsidiaries. Through discovery (IR Response Nos. 6-11, 6-12, 6-13, 9-6, 9-7), ORS determined that three acquisitions (Florida companies, CUC and Champs Water Company)

1 concluded after the end of the Test Year. ORS included these companies in the
2 three-factor allocation using data provided by PWR. This change affected PWR's
3 SWWC three-factor allocation for a difference of (\$13,048). In addition, ORS
4 removed all vacation and sick pay amounts from the total SWWC cost pool,
5 because the Company had already accounted for these amounts by annualizing
6 payroll. The removal of the vacation and sick pay amounts from the SWWC cost
7 pool resulted in a reduction to PWR of \$4,438. Therefore, ORS proposes a total
8 adjustment of (\$17,486) to PWR's allocation of SWWC costs.

9 **Adjustment 2J – Nonallowable Expense:** ORS proposes to remove nonallowable
10 expense of \$625 related to lobbying.

11 **Adjustment 2K – Purchased Power:** Subsequent to the filing of the Application
12 the Company noted that an adjustment of \$14,532 should have been made for a non-
13 recurring credit received from the Santee Cooper V.C. Summer abandonment settlement
14 during the Test Year. While the Company did not address this adjustment in its direct
15 testimony, ORS reviewed the Company's proposed adjustment and accepts the adjustment
16 of \$14,532.

17 **Adjustment 2L – Chemical Expense:** Subsequent to the filing of the Application
18 the Company noted that an adjustment of \$8,940 should have been made for an increase in
19 sodium bisulfite from \$0.18 per pound to \$0.24 per pound effective July 1, 2021. ORS
20 reviewed the Company's proposed adjustment, which calculates using the quantity of
21 sodium bisulfite in the Test Year of 149,000 pounds. While the Company did not address
22 this adjustment in its direct testimony, ORS accepts the Company's adjustment of \$8,940.

1 **Adjustment 2M – Sludge Expense:** Subsequent to the filing of the Application
2 the Company noted that an adjustment of \$18,678 should have been made for an increase
3 in sludge hauling expense from \$39.45 per ton to \$50.00 per ton effective August 1, 2021.
4 ORS reviewed the Company’s proposed adjustment, which calculates using the quantity of
5 sludge in the Test Year of 1,770.41 tons. While the Company did not address this
6 adjustment in its direct testimony, ORS accepts the Company’s adjustment of \$18,678.

7 **Adjustment 3 – Depreciation Expense:** The Company proposes an adjustment in
8 the amount of \$90,070 to depreciation expense to reflect new capital expenditures and asset
9 retirements as of March 31, 2021, as well as depreciation expense on SWWC shared assets.
10 ORS calculated an adjustment to depreciation expense of \$103,351 based on the actual plant
11 in service not fully depreciated that was included in PWR’s property record detail as of
12 March 31, 2021. ORS also included adjustments to depreciation expense ordered by the
13 Commission in PWR’s prior rate case Commission Order No. 2019-314 and PUI’s last rate
14 case Commission Order No. 2020-561 for the calculation of PWR’s direct depreciation
15 expense. In addition, ORS included depreciation expense on regional and local shared assets
16 of \$5,702 and SWWC shared assets of \$33,944. The details of ORS’s proposed adjustment
17 are shown in Exhibit CLS-3.

18 **Adjustment 4 – Amortization Expense-Other:** The Company proposes an
19 adjustment in the amount of (\$1,278) to adjust for contributions in aid of construction
20 (“CIAC”) as of March 31, 2021. ORS calculated an adjustment to amortization of CIAC
21 of (\$1,511) based on the CIAC included in PWR’s property record detail as of March 31,
22 2021. The details of ORS’s proposed adjustment are shown in Exhibit CLS-3.

Adjustment 5 – Utility Regulatory Assessment Fees: ORS and the Company propose to adjust utility regulatory assessment fees after accounting and pro forma adjustments by applying the gross receipts factor of 0.708793% to total pro forma revenue, less the per book amount of \$21,079.

Adjustment 6 – Property Taxes: The Company proposes an adjustment in the amount of \$68,865 to adjust for property taxes related to pro forma plant in service additions and retirements, net CIAC and accumulated depreciation. ORS proposes an adjustment in the amount of \$67,887. ORS computed the adjustment by applying the Company's assessment ratio and millage rates to ORS's calculation of net plant in service and CIAC balances.

Adjustment 7 – Other Taxes and Licenses: ORS proposes to adjust for the corporate license fee by applying the fee of 0.3% to the accounting and pro forma operating revenue adjustment.

Adjustment 8 – Federal Income Taxes, Utility Operating Income: The Company proposes to adjust federal income taxes reflecting the 21% federal income tax rate after its accounting and pro forma adjustments. ORS proposes to adjust federal income taxes using the 21% federal income tax rate applied to taxable income after ORS's accounting and pro forma adjustments. Details of ORS's computation of income taxes are shown in Exhibit CLS-4.

Adjustment 9 – State Income Taxes, Utility Operating Income: The Company proposes to adjust state income taxes reflecting a 5% state income tax rate after its accounting and pro forma adjustments. ORS proposes to adjust state income taxes using the South Carolina corporate income tax rate of 5% applied to taxable income after ORS's

accounting and pro forma adjustments. Details of ORS's computation of income taxes are shown in Exhibit CLS-4.

Adjustment 10 – Deferred Federal Income Taxes: The Company proposes to remove deferred federal income tax expense. ORS accepts the Company's adjustment of (\$2,181).

Adjustment 11 – Deferred State Income Taxes: The Company proposes to remove deferred state income tax expense. ORS accepts the Company's adjustment of (\$2,181).

Adjustment 12 – Interest and Dividend Income: The Company proposes to remove non-recurring interest income. ORS accepts the Company's adjustment of (\$3,706).

Adjustment 13 – Allowance for Funds Used During Construction ("AFUDC"):
The Company proposes to eliminate AFUDC of \$18,650 from the Test Year. ORS accepts the Company's adjustment of (\$18,650). The Company gains recovery of AFUDC through depreciation expense once the associated plant assets have been placed in service, and therefore, AFUDC should not be included in the calculation of the pro forma revenue requirement.

Adjustment 14 – Plant in Service: The Company proposes an adjustment in the amount of \$671,627 to reflect plant in service as of March 31, 2021. The Company uses its plant in service property record detail as of December 31, 2020, including adjustments ordered by the Commission in PWR's prior rate case Commission Order No. 2019-314 and PUI's last rate case Commission Order No. 2020-561, plus pro forma additions and pro forma retirements through March 31, 2021 for total PWR direct plant in service. In addition,

1 PWR added net plant in service for regional and local shared assets and SWWC shared assets.
2 ORS proposes using PWR's plant in service property record detail of \$16,498,688 as of
3 December 31, 2020, including adjustments ordered by the Commission in PWR's prior rate
4 case Commission Order No. 2019-314 and PUI's last rate case Commission Order No. 2020-
5 561 of (\$24,937), plus pro forma additions of \$669,682 and pro forma retirements of
6 (\$95,949) through March 31, 2021 for total PWR direct plant in service of \$17,047,484. In
7 addition, ORS added gross plant in service for regional and local shared assets of \$38,900
8 and SWWC shared assets of \$145,471, using ORS's updated allocation factors as discussed
9 in ORS Adjustment 2I, for total plant in service of \$17,231,855. Total plant in service of
10 \$17,231,855, less per book plant in service of \$16,498,687, results in an adjustment of
11 \$733,168. The details of ORS's proposed adjustment are shown in Exhibit CLS-3.

12 **Adjustment 15 – Accumulated Depreciation:** The Company proposes an
13 adjustment in the amount of (\$65,758) to accumulated depreciation. ORS proposes an
14 adjustment in the amount of (\$127,226) using PWR's property record detail of (\$5,052,668)
15 as of March 31, 2021, less adjustments ordered by the Commission in PWR's prior rate case
16 Commission Order No. 2019-314 and PUI's last rate case Commission Order No. 2020-561
17 of \$6,926, plus accumulated depreciation for SWWC shared assets of (\$45,019), and regional
18 and local shared assets of (\$23,375), for total accumulated depreciation of (\$5,114,136).
19 Total accumulated depreciation of (\$5,114,136), less per book accumulated depreciation of
20 (\$4,986,910), results in an adjustment of (\$127,226). The details of ORS's proposed
21 adjustment are shown in Exhibit CLS-3.

22 **Adjustment 16 – Contributions in Aid of Construction (“CIAC”) – Net:** The
23 Company proposes an adjustment of (\$3,337) to reflect net CIAC as of March 31, 2021.

ORS reviewed the Company's property records and agrees with the Company's adjustment. ORS's adjustment of (\$3,338) is off \$1 due to rounding.

Adjustment 17 – Accumulated Deferred Income Taxes (“ADIT”): The Company proposes to adjust ADIT by (\$25,908). ORS accepts the Company's adjustment.

Adjustment 18 – Cash Working Capital: The Company proposes to adjust cash working capital using a 45-day allowance or 1/8 of total operating expenses, which includes bad debt expense. ORS accepts the Company using a 45-day allowance to calculate cash working capital. However, ORS proposes to adjust cash working capital by applying the 45-day allowance or 1/8 to total operating expenses after accounting and pro forma adjustments less bad debt expense. Bad debt expense is considered a non-cash item and therefore should not be included in the calculation of cash working capital. Details of this adjustment are included in Exhibit CLS-5.

Adjustment 19 – Interest Expense: ORS's total interest expense adjustment is (\$171,060). This adjustment is comprised of the following adjustments:

Adjustment 19A – Amortization of Debt Discount and Expense: The Company proposes to remove the amortization of debt discount and expense of \$30,760. ORS accepts the Company's adjustment of (\$30,760).

Adjustment 19B – Interest Expense: The Company proposes to synchronize interest expense with rate base. ORS accepts this methodology. ORS calculated the adjustment to interest expense using an allowable rate base of \$11,504,593, a capital structure of 50% debt and 50% equity, and a cost of debt of 3.79% as proposed by ORS witness Garrett. ORS applied the cost of debt to the portion of the Company's rate base funded by debt to

generate synchronized interest expense of \$218,012. This amount, less the Company's per book interest expense of \$358,312, yields an adjustment of (\$140,300).

Adjustment 20 – Operating Revenues: ORS's total operating revenues adjustment is \$117,000. This adjustment is comprised of the following operating revenue adjustments:

Adjustment 20A – Residential Revenues: Details of this adjustment are reflected in the direct testimony of ORS witness Hunnell.

Adjustment 20B – Mobile Home Revenues: Details of this adjustment are reflected in the direct testimony of ORS witness Hunnell.

Adjustment 20C – Commercial Revenues: Details of this adjustment are reflected in the direct testimony of ORS witness Hunnell.

Adjustment 20D – Multiple Family Dwelling Revenues: Details of this adjustment are reflected in the direct testimony of ORS witness Hunnell.

Adjustment 20E – Miscellaneous Revenues: Details of this adjustment are reflected in the direct testimony of ORS witness Hunnell.

Adjustment 21 – Operating Expense: The Company and ORS propose to adjust bad debt expense using a bad debt percentage of 1% of total revenues. ORS applied the 1% bad debt percentage to ORS's proposed adjustment to revenues.

Adjustment 22 – Utility Regulatory Assessment Fees: The Company and ORS propose to adjust gross receipts taxes using a gross receipts factor of 0.708793%. ORS applied the gross receipts factor of 0.708793% to ORS's proposed adjustment to revenues.

1 **Adjustment 23 – Other Taxes and Licenses:** The Company and ORS propose to
2 adjust license fee taxes using a license fee factor of 0.3%. ORS applied the license fee
3 factor of 0.3% to ORS’s proposed adjustments to revenues.

4 **Adjustment 24 – Federal Income Taxes, Utility Operating Income:** The
5 Company and ORS propose to adjust federal income taxes by 21%. ORS proposes to adjust
6 federal income taxes for ORS’s adjustments to revenues, bad debt expense, gross receipts
7 taxes and license fee taxes using the federal income tax rate of 21%. Details of ORS’s
8 computation of income taxes are shown in Exhibit CLS-4.

9 **Adjustment 25 – State Income Taxes, Utility Operating Income:** The Company
10 and ORS propose to adjust state income taxes by 5%. ORS proposes to adjust state income
11 taxes for ORS’s adjustments to revenues, bad debt expense, gross receipts taxes and license
12 fee taxes using the state income tax rate of 5%. Details of ORS’s computation of income
13 taxes are shown in Exhibit CLS-4.

14 **Adjustment 26 – Amortization of Excess Deferred Income Taxes:** The
15 Company proposes to increase net income by the annual amortization of EDIT due to the
16 Tax Cuts and Jobs Act. This amount agrees to the amortization of EDIT, grossed up for
17 taxes, as included on Exhibit MPS-3 of ORS witness Schellinger’s direct testimony in
18 PWR’s prior rate case Docket No. 2018-82-S, Order No. 2019-314. ORS accepts the
19 Company’s adjustment of \$19,880.

20 **Adjustment 27 – Cash Working Capital:** The Company proposes to adjust cash
21 working capital using a 45-day allowance or 1/8 for the adjustment to bad debt expense.
22 ORS does not propose an adjustment to adjust cash working capital for ORS’s adjustment
23 to bad debt expense.

Q. PLEASE DESCRIBE THE REMAINING EXHIBITS ATTACHED TO YOUR TESTIMONY.

A. Exhibit CLS-3 details the computation of ORS's depreciation and amortization expense adjustments for plant in service and CIAC. Exhibit CLS-4 details the computation of income taxes. Exhibit CLS-5 details the calculation of the cash working capital allowance. Exhibit CLS-6 details the calculation of weighted cost of capital. Exhibit CLS-7 details the Company's operating experience, rate base and rate of return for the Test Year. The exhibit's format is designed to reflect the Application per books and ORS's proposed accounting and pro forma adjustments necessary to normalize the results of the Company's Test Year operations and reflect ORS's recalculation of the Company's proposed rate increase.

Q. WILL YOU UPDATE YOUR DIRECT TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?

A. Yes. ORS fully reserves the right to revise its recommendations via supplemental testimony should new information not previously provided by the Company, or other sources, becomes available.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Palmetto Wastewater Reclamation, Inc.
Docket No. 2021-153-S
Operating Experience, Rate Base and Rate of Return
For the Test Year Ended December 31, 2020

<u>Description</u>	(1) <u>Per</u> <u>Application</u> \$	(2) <u>ORS</u> <u>Accounting</u> <u>&</u> <u>Pro Forma</u> <u>Adjustments</u> \$	(3) <u>After ORS</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> \$	(4) <u>ORS</u> <u>Proposed</u> <u>Adjustment</u> \$	(5) <u>After ORS</u> <u>Proposed</u> <u>Adjustment</u> \$
<u>Utility Operating Revenues:</u>					
Operating Revenues	3,549,800	143,755 (1)	3,693,555	117,000 (20)	3,810,555
<u>Total Utility Operating Revenues</u>	<u>3,549,800</u>	<u>143,755</u>	<u>3,693,555</u>	<u>117,000</u>	<u>3,810,555</u>
<u>Utility Operating Expenses:</u>					
Operating Expenses	933,603	666,862 (2)	1,600,465	1,170 (21)	1,601,635
Depreciation Expense	602,136	103,351 (3)	705,487	0	705,487
Amortization Expense - Other	(11,168)	(1,511) (4)	(12,679)	0	(12,679)
Utility Regulatory Assessment Fees	21,079	5,101 (5)	26,180	829 (22)	27,009
Property Taxes	546,417	67,887 (6)	614,304	0	614,304
Other Taxes and Licenses	0	431 (7)	431	351 (23)	782
Federal Income Taxes, Utility Operating Income	112,336	(4,336) (8)	108,000	22,873 (24)	130,873
State Income Taxes, Utility Operating Income	30,538	(3,470) (9)	27,068	5,732 (25)	32,800
Deferred Federal Income Taxes	2,181	(2,181) (10)	0	0	0
Deferred State Income Taxes	2,181	(2,181) (11)	0	0	0
<u>Total Utility Operating Expenses</u>	<u>2,239,303</u>	<u>829,953</u>	<u>3,069,256</u>	<u>30,955</u>	<u>3,100,211</u>
<u>Net Utility Operating Income (Loss)</u>	<u>1,310,497</u>	<u>(686,198)</u>	<u>624,299</u>	<u>86,045</u>	<u>710,344</u>
Add: Interest and Dividend Income	3,706	(3,706) (12)	0	0	0
Add: Allowance for Funds Used During Construction	18,650	(18,650) (13)	0	0	0
Add: Amortization of Excess Deferred Income Taxes	0	0	0	19,880 (26)	19,880
<u>Net Income (Loss) for Return</u>	<u>1,332,853</u>	<u>(708,554)</u>	<u>624,299</u>	<u>105,925</u>	<u>730,224</u>
<u>Original Cost Rate Base:</u>					
Plant in Service	16,498,687	733,168 (14)	17,231,855	0	17,231,855
Accumulated Depreciation	(4,986,910)	(127,226) (15)	(5,114,136)	0	(5,114,136)
Contributions in Aid of Construction - Net	(347,654)	(3,338) (16)	(350,992)	0	(350,992)
Net Plant	11,164,123	602,604	11,766,727	0	11,766,727
Accumulated Deferred Income Taxes	(4,362)	(25,908) (17)	(30,270)	0	(30,270)
Excess Deferred Income Taxes	(438,319)	0	(438,319)	0	(438,319)
Materials and Supplies	0	0	0	0	0
Prepayments	11,014	0	11,014	0	11,014
Cash Working Capital	116,700	78,741 (18)	195,441	0 (27)	195,441
<u>Total Rate Base</u>	<u>10,849,156</u>	<u>655,437</u>	<u>11,504,593</u>	<u>0</u>	<u>11,504,593</u>
<u>Return on Rate Base</u>	<u>12.29%</u>		<u>5.43%</u>		<u>6.35%</u>
<u>Operating Margin</u>	<u>26.59%</u>		<u>11.00%</u>		<u>13.44%</u>
<u>Interest Expense</u>	<u>389,072</u>	<u>(171,060) (19)</u>	<u>218,012</u>	<u>0</u>	<u>218,012</u>

Palmetto Wastewater Reclamation, Inc.
Docket No. 2021-153-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
<u>Accounting and Pro forma Adjustments</u>				
(1)		<u>Operating Revenues</u>		
(1A)	(1)	To adjust residential revenues to reflect the most recent equivalent residential customers as calculated by the ORS Water Operations Department.	\$ (12,450)	\$ (21,096)
(1B)	(1)	To adjust residential-mobile home revenues to reflect the most recent equivalent residential customers as calculated by the ORS Water Operations Department.	17,660	17,659
(1C)	(1)	To adjust commercial revenues to reflect the most recent equivalent residential customers as calculated by the ORS Water Operations Department.	11,885	(12,687)
(1D)	(1)	To adjust multiple family dwelling structures revenues to reflect the most recent equivalent residential customers as calculated by the ORS Water Operations Department.	126,603	127,058
(1E)	(1)	To adjust miscellaneous revenues to reflect the adjustments as calculated by the ORS Water Operations Department.	57	0
(1)		<u>Total Operating Revenues</u>	<u>\$ 143,755</u>	<u>\$ 110,934</u>
(2)		<u>Operating Expenses</u>		
(2A)	(2)	To adjust materials and supplies for COVID related expenses.	\$ 0	\$ (3,106)
(2B)	(3)	To remove contractual services - management fees account balance.	(186,776)	(186,776)
(2C)	(4)	To adjust contractual services - other for additional operator licenses and remove maintenance costs included in shared overhead.	(7,551)	(7,551)
(2D)	(5)	To remove transportation expenses included in shared overhead.	(12,269)	(12,269)
(2E)	(6)	To remove vehicle and general liability insurance included in shared overhead.	(27,070)	(27,070)
(2F)	(7)	To record insurance premium for required performance bond.	7,000	7,000
(2G)	(8)	To amortize rate case expenses over three years.	(66,174)	13,334

Palmetto Wastewater Reclamation, Inc.
Docket No. 2021-153-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
(2H)	(9)	To adjust bad debt to 1% of proforma revenues.	1,467	1,138
(2I)	(10)	To allocate corporate overhead and shared costs.	916,710	955,039
(2J)	-	To remove nonallowable expenses.	(625)	0
(2K)	-	To adjust purchased power expense to account for a non-recurring credit received during the test year.	14,532	0
(2L)	-	To adjust chemical expense to the going-forward level.	8,940	0
(2M)	-	To adjust sludge expense to the going-forward level.	18,678	0
(2)		<u>Total Operating Expenses</u>	\$ 666,862	\$ 739,739
<u>Depreciation Expense</u>				
(3)	(11)	To adjust depreciation expense to reflect new capital expenditures and other adjustments to plant in service as of 3/31/2021.	\$ 103,351	\$ 90,070
<u>Amortization Expense - Other</u>				
(4)	(12)	To adjust amortization of contributions in aid of construction as of 3/31/2021.	\$ (1,511)	\$ (1,278)
<u>Utility Regulatory Assessment Fees</u>				
(5)	(13)	To adjust utility regulatory assessment fees after the accounting and pro forma adjustments using a rate of 0.708793%.	\$ 5,101	\$ 4,868
<u>Property Taxes</u>				
(6)	(14)	To adjust property taxes to reflect new capital expenditures and adjusted net plant in service.	\$ 67,887	\$ 68,865
<u>Other Taxes and Licenses</u>				
(7)	-	To adjust corporate license fee of 0.3% after accounting and pro forma adjustments.	\$ 431	\$ 0

Palmetto Wastewater Reclamation, Inc.
Docket No. 2021-153-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
<u>Federal Income Taxes, Utility Operating Income</u>				
(8)	(15)	To adjust federal income taxes on pro forma income at 21%.	\$ <u>(4,336)</u>	\$ <u>(14,294)</u>
<u>State Income Taxes, Utility Operating Income</u>				
(9)	(15)	To adjust state income taxes on pro forma income at 5%.	\$ <u>(3,470)</u>	\$ <u>(5,966)</u>
<u>Deferred Federal Income Taxes</u>				
(10)	(16)	To remove deferred federal income tax expense.	\$ <u>(2,181)</u>	\$ <u>(2,181)</u>
<u>Deferred State Income Taxes</u>				
(11)	(16)	To remove deferred state income tax expense.	\$ <u>(2,181)</u>	\$ <u>(2,181)</u>
<u>Interest and Dividend Income</u>				
(12)	(17)	To remove non-recurring interest income.	\$ <u>(3,706)</u>	\$ <u>(3,706)</u>
<u>Allowance for Funds Used During Construction</u>				
(13)	(18)	To remove allowance for funds used during construction.	\$ <u>(18,650)</u>	\$ <u>(18,650)</u>
(14)	-	<u>Plant in Service</u>		
		To adjust plant in service as of 3/31/21. See Audit Exhibit CLS-3.	\$ <u>733,168</u>	\$ <u>671,627</u>
(15)	-	<u>Accumulated Depreciation</u>		
		To adjust accumulated depreciation as of 3/31/21. See Audit Exhibit CLS-3.	\$ <u>(127,226)</u>	\$ <u>(65,758)</u>

Palmetto Wastewater Reclamation, Inc.
Docket No. 2021-153-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
(16)	-	<u>Contributions in Aid of Construction - Net</u>		
		To adjust net contributions in aid of construction as of 3/31/21. See Audit Exhibit CLS-3.	\$ <u>(3,338)</u>	\$ <u>(3,337)</u>
(17)	-	<u>Accumulated Deferred Income Taxes</u>		
		To adjust accumulated deferred income taxes.	\$ <u>(25,908)</u>	\$ <u>(25,908)</u>
(18)	-	<u>Cash Working Capital</u>		
		To adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit CLS-5.	\$ <u>78,741</u>	\$ <u>92,467</u>
(19)		<u>Interest Expense</u>		
(19A)	(20)	To remove amortization of debt discount and expense.	\$ (30,760)	\$ (30,760)
(19B)	(19)	To synchronize interest expense with the portion of rate base financed by debt.	(140,300)	(183,341)
(19)		<u>Total Interest Expense</u>	\$ <u>(171,060)</u>	\$ <u>(214,101)</u>

ORS Proposed Adjustment

(20)		<u>Operating Revenues</u>		
(20A)	(21)	To adjust residential revenues to reflect the proposed rates as calculated by the ORS Water Operations Department.	\$ 19,410	\$ 82,035
(20B)	(21)	To adjust residential-mobile home revenues to reflect the proposed rates as calculated by the ORS Water Operations Department.	561	2,423
(20C)	(21)	To adjust commercial revenues to reflect the proposed rates as calculated by the ORS Water Operations Department.	29,360	123,302
(20D)	(21)	To adjust multiple family dwelling revenues to reflect the proposed rates as calculated by the ORS Water Operations Department.	67,489	291,243

Palmetto Wastewater Reclamation, Inc.
Docket No. 2021-153-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
(20E)	(21)	To adjust miscellaneous revenues to reflect the adjustments as calculated by the ORS Water Operations Department.	180	0
(20)		<u>Total Operating Revenues</u>	\$ <u>117,000</u>	\$ <u>499,003</u>
		<u>Operating Expenses</u>		
(21)	(22)	To adjust bad debt expense at 1% of the total revenues after ORS's proposed adjustment.	\$ <u>1,170</u>	\$ <u>4,990</u>
(22)	(23)	<u>Utility Regulatory Assessment Fees</u>		
		To adjust utility regulatory assessment fees after ORS's proposed adjustment using a rate of 0.708793%.	\$ <u>829</u>	\$ <u>3,537</u>
		<u>Other Taxes and Licenses</u>		
(23)	(24)	To adjust corporate license fee of 0.3% after ORS's proposed adjustment.	\$ <u>351</u>	\$ <u>1,497</u>
		<u>Federal Income Taxes, Utility Operating Income</u>		
(24)	(25)	To adjust federal income taxes after ORS's proposed adjustment.	\$ <u>22,873</u>	\$ <u>97,551</u>
		<u>State Income Taxes, Utility Operating Income</u>		
(25)	(25)	To adjust state income taxes after ORS's proposed adjustment.	\$ <u>5,732</u>	\$ <u>24,449</u>
		<u>Amortization of Excess Deferred Income Taxes</u>		
(26)	(26)	To increase net income by the annual amortization of excess deferred income taxes due to the Tax Cuts and Jobs Act.	\$ <u>19,880</u>	\$ <u>19,880</u>
		<u>Cash Working Capital</u>		
(27)	-	To adjust cash working capital after ORS's proposed adjustment.	\$ <u>0</u>	\$ <u>624</u>

Palmetto Wastewater Reclamation, Inc.
Docket No. 2021-153-S
Computation of Depreciation and Amortization Expense
For the Test Year Ended December 31, 2020

Description	PWR Plant in Service @ 12/31/20	Adjustments	Less: Fully Depreciated Plant	Pro forma Additions	Pro forma Retirements	Plant in Service for Depreciation Expense	Service Life	Depreciation Rate	Depreciation Expense
	\$	\$	\$	\$	\$	\$	Years	%	\$
<u>Collection Sewers - Gravity</u>									
PVC - 4" to 30"	6,092,979	-	-	-	-	6,092,979	45	2.22%	135,264
DIP - 4" to 30"	25,736	-	-	-	-	25,736	45	2.22%	571
Manholes	627,445	-	-	-	-	627,445	30	3.33%	20,894
	6,746,160	-	-	-	-	6,746,160			156,729
<u>Collection System - Services to Customers</u>									
Services	572,296	-	-	-	-	572,296	38	2.63%	15,051
Elder Valves	206,796	-	-	-	-	206,796	38	2.63%	5,439
Grease Traps	3,411	-	-	-	-	3,411	38	2.63%	90
	782,503	-	-	-	-	782,503			20,580
Flow Measuring Devices	672	-	(672)	-	-	-	5	20.00%	-
Total Collection Plant	7,529,335	-	(672)	-	-	7,528,663			177,309
<u>Pumping Plant</u>									
Pumping Equipment	342,169	-	(56,870)	-	-	285,299	18	5.56%	15,863
Total Pumping Plant	342,169	-	(56,870)	-	-	285,299			15,863
<u>Treatment & Disposal Plant</u>									
Land and Land Rights	57,112	-	-	-	-	57,112			N/A
Structures & Improvements	243,819	-	(1,315)	-	-	242,504	32	3.13%	7,590
Power Generating Equipment	55,994	-	-	-	-	55,994	20	5.00%	2,800
Treatment & Disposal Equipment	6,950,310	-	(443,365)	669,682	(95,949)	7,080,678	18	5.56%	393,686
Outfall Sewer Lines	397,571	-	(379,716)	-	-	17,855	30	3.33%	595
Other Plant and Miscellaneous Equipment	20,047	-	(20,047)	-	-	-	18	5.56%	-
Total Treatment and Disposal Plant	7,724,853	-	(844,443)	669,682	(95,949)	7,454,143			404,671
<u>General Plant</u>									
Structures and Improvements	107,538	15,440	(1,526)	-	-	121,452	32	3.13%	3,801
Office Furniture and Equipment	7,704	6,307	-	-	-	14,011	15	6.67%	935
Computer and Software	31,533	5,801	(14,481)	-	-	22,853	6	16.67%	3,810
Total Office Furniture and Computers	39,237	12,108	(14,481)	-	-	36,864			4,745
Transportation Equipment	-	50,459	-	-	-	50,459	6	16.67%	8,412
Tools, Shop, and Garage Equipment	8,813	-	-	-	-	8,813	16	6.25%	551
Laboratory Equipment	6,572	-	-	-	-	6,572	15	6.67%	438
Power Operated Equipment	685,594	(102,944)	(37,022)	-	-	545,628	12	8.33%	45,451
Communication Equipment	28,818	-	-	-	-	28,818	10	10.00%	2,882
Miscellaneous Equipment	25,759	-	-	-	-	25,759	15	6.67%	1,718
Total General Plant	902,331	(24,937)	(53,029)	-	-	824,365			67,998
Total Plant in Service	16,498,688	(24,937)	(955,014)	669,682	(95,949)	16,092,470			665,841
PWR Direct Depreciation Expense			665,841						
Regional and Local Shared Assets Depreciation			5,702						
SWWC Shared Assets Depreciation			33,944						
Total Depreciation Expense			705,487						
Less: Per Book Depreciation Expense			602,136						
ORS Depreciation Expense Adjustment #3			103,351						
PWR Direct Plant in Service			17,047,484						
Regional and Local Shared Assets Plant in Service			38,900						
SWWC Shared Assets Plant in Service			145,471						
Total Plant in Service			17,231,855						
Less: Per Book Plant in Service			16,498,687						
ORS Plant in Service Adjustment #14			733,168						
PWR Direct Accumulated Depreciation			(5,052,668)						
Adjustments (Allocations from PUI)			6,926						
Regional and Local Shared Assets Accumulated Depreciation			(23,375)						
SWWC Shared Assets Accumulated Depreciation			(45,019)						
Total Accumulated Depreciation			(5,114,136)						
Less: Per Book Accumulated Depreciation			(4,986,910)						
ORS Accumulated Depreciation Adjustment #15			(127,226)						

Palmetto Wastewater Reclamation, Inc.
Docket No. 2021-153-S
Computation of Depreciation and Amortization Expense
For the Test Year Ended December 31, 2020

Description	PWR CIAC in Service @ 12/31/20	Adjustments	Less: Fully Amortized CIAC	Pro forma Additions	Pro forma Retirements	CIAC for Amortization Expense	Service Life Years	Amortization Rate %	Amortization Expense \$
<u>Collection Sewers - Gravity</u>	\$	\$	\$	\$	\$	\$			
PVC - 4" to 30"	(566,209)	-	293,542	-	-	(272,667)	45	2.22%	(6,053)
DIP - 4" to 30"	(25,736)	-	-	-	-	(25,736)	45	2.22%	(571)
Manholes	(78,244)	-	-	-	-	(78,244)	30	3.33%	(2,606)
	(670,189)	-	293,542	-	-	(376,647)			(9,230)
<u>Collection System - Services to Customers</u>									
Services	(59,251)	-	-	-	-	(59,251)	38	2.63%	(1,558)
Elder Valves	(37,338)	-	-	-	-	(37,338)	38	2.63%	(982)
Grease Traps	-	-	-	-	-	-	38	2.63%	-
	(96,589)	-	-	-	-	(96,589)			(2,540)
Flow Measuring Devices	-	-	-	-	-	-	5	20.00%	-
Total Collection CIAC	(766,778)	-	293,542	-	-	(473,236)			(11,770)
<u>Pumping CIAC</u>									
Pumping Equipment	(653)	-	-	-	-	(653)	18	5.56%	(36)
Total Pumping CIAC	(653)	-	-	-	-	(653)			(36)
<u>Treatment & Disposal CIAC</u>									
Land and Land Rights	-	-	-	-	-	-			N/A
Structures & Improvements	-	-	-	-	-	-	32	3.13%	-
Power Generating Equipment	-	-	-	-	-	-	20	5.00%	-
Treatment & Disposal Equipment	(7,761)	-	-	(6,450)	-	(14,211)	18	5.56%	(790)
Outfall Sewer Lines	-	-	-	-	-	-	30	3.33%	-
Other CIAC and Miscellaneous Equipment	-	-	-	-	-	-	18	5.56%	-
Total Treatment and Disposal CIAC	(7,761)	-	-	(6,450)	-	(14,211)			(790)
<u>General CIAC</u>									
Structures and Improvement	-	-	-	-	-	-	32	3.13%	-
<u>Office Furniture and Equipment</u>									
Office Furniture and Equipment	-	-	-	-	-	-	15	6.67%	-
Computer and Software	-	-	-	-	-	-	6	16.67%	-
Total Office Furniture and Computers	-	-	-	-	-	-			-
Transportation Equipment	-	-	-	-	-	-	6	16.67%	-
Tools, Shop, and Garage Equipment	-	-	-	-	-	-	16	6.25%	-
Laboratory Equipment	-	-	-	-	-	-	15	6.67%	-
Power Operated Equipment	-	-	-	-	-	-	12	8.33%	-
Communication Equipment	-	-	-	-	-	-	10	10.00%	-
Miscellaneous Equipment	(1,250)	-	-	-	-	(1,250)	15	6.67%	(83)
Total General CIAC	(1,250)	-	-	-	-	(1,250)			(83)
Total CIAC in Service	(776,442)	-	293,542	(6,450)	-	(489,350)			(12,679)
PWR Amortization Expense			(12,679)						
Less: Per Book Amortization Expense			(11,168)						
ORS Amortization Expense Adjustment #4			(1,511)						
Total CIAC in Service			(782,892)						
Plus: Total Accumulated Amortization of CIAC			431,900						
CIAC Net			(350,992)						
Less: Per Book CIAC Net			(347,654)						
ORS Net CIAC Adjustment #16			(3,338)						

Exhibit CLS-4

Palmetto Wastewater Reclamation, Inc.
Docket No. 2021-153-S
Computation of Income Taxes
For the Test Year Ended December 31, 2020

After ORS Accounting & Pro Forma Adjustments

Operating Revenues	\$ 3,693,555
Operating Expenses	<u>2,934,188</u>
Net Operating Income Before Taxes	759,367
Less: Annualized Interest Expense	<u>218,012</u>
Taxable Income - State	541,355
State Income Tax %	<u>5.0%</u>
State Income Taxes	27,068
Less: State Income Taxes Per Book	<u>30,538</u>
ORS Adjustment #9 - State Income Taxes	\$ <u><u>(3,470)</u></u>
Taxable Income - Federal	514,287
Federal Income Taxes %	<u>21.0%</u>
Federal Income Taxes	108,000
Less: Federal Income Taxes Per Book	<u>112,336</u>
ORS Adjustment #8 - Federal Income Taxes	\$ <u><u>(4,336)</u></u>

After ORS Proposed Adjustment

Operating Revenues	\$ 3,810,555
Operating Expenses	<u>2,936,538</u>
Net Operating Income Before Taxes	874,017
Less: Annualized Interest Expense	<u>218,012</u>
Taxable Income - State	656,005
State Income Tax %	<u>5.0%</u>
State Income Taxes	32,800
Less: State Income Taxes As Adjusted	<u>27,068</u>
ORS Adjustment #25 - State Income Taxes	\$ <u><u>5,732</u></u>
Taxable Income - Federal	623,205
Federal Income Taxes %	<u>21.0%</u>
Federal Income Taxes	130,873
Less: Federal Income Taxes As Adjusted	<u>108,000</u>
ORS Adjustment #24 - Federal Income Taxes	\$ <u><u>22,873</u></u>

Palmetto Wastewater Reclamation, Inc.
Docket No. 2021-153-S
Cash Working Capital
For the Test Year Ended December 31, 2020

After ORS Accounting & Pro Forma Adjustments

Operating Expenses	\$ 1,600,465
Less: Bad Debt Expense	<u>(36,936)</u>
Operating Expenses for Cash Working Capital Calculation	1,563,529
Allowable Rate	<u>12.50%</u>
Computed Cash Working Capital	195,441
Less: Cash Working Capital - Application Per Books	<u>116,700</u>
ORS Adjustment #18 - Cash Working Capital	<u><u>\$ 78,741</u></u>

Palmetto Wastewater Reclamation, Inc.
Docket No. 2021-153-S
Weighted Cost of Capital
For the Test Year Ended December 31, 2020

Exhibit CLS-6

Description	Filed Capital Structure	Filed Calculated Ratio	Pro forma Ratio	Per Application				After ORS Accounting and Pro forma Adjustments				After ORS Proposed Adjustment			
				Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 4,228,281	40.08%	50.00%	\$ 4,348,342	3.79%	1.52%	\$ 164,802	\$ 5,752,297	3.79%	1.89%	\$ 218,012	\$ 5,752,297	3.79%	1.89%	\$ 218,012
Members' Equity	6,321,572	59.92%	50.00%	6,500,814	17.97%	10.77%	1,168,051	5,752,297	7.06%	3.54%	406,287	5,752,297	8.90%	4.46%	512,212
Totals	\$ 10,549,853	100.00%	100.00%	\$ 10,849,156		12.29%	\$ 1,332,853	\$ 11,504,593		5.43%	\$ 624,299	\$ 11,504,593		6.35%	\$ 730,224

Palmetto Wastewater Reclamation, Inc.
Docket No. 2021-153-S
Operating Experience, Rate Base and Rate of Return Reflecting the Company's Proposed Increase
For the Test Year Ended December 31, 2020

<u>Description</u>	(1) <u>Per</u> <u>Application</u> \$	(2) ORS <u>Accounting</u> <u>&</u> <u>Pro Forma</u> <u>Adjustments</u> \$	(3) <u>After ORS</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> \$	(4) <u>Company</u> <u>Proposed</u> <u>Increase</u> \$	(5) <u>After</u> <u>Proposed</u> <u>Increase</u> \$
<u>Utility Operating Revenues:</u>					
Operating Revenues	3,549,800	143,755 (1)	3,693,555	503,439 (20)	4,196,994
<u>Total Utility Operating Revenues</u>	<u>3,549,800</u>	<u>143,755</u>	<u>3,693,555</u>	<u>503,439</u>	<u>4,196,994</u>
<u>Utility Operating Expenses:</u>					
Operating Expenses	933,603	666,862 (2)	1,600,465	5,034 (21)	1,605,499
Depreciation Expense	602,136	103,351 (3)	705,487	0	705,487
Amortization Expense - Other	(11,168)	(1,511) (4)	(12,679)	0	(12,679)
Utility Regulatory Assessment Fees	21,079	5,101 (5)	26,180	3,568 (22)	29,748
Property Taxes	546,417	67,887 (6)	614,304	0	614,304
Other Taxes and Licenses	0	431 (7)	431	1,510 (23)	1,941
Federal Income Taxes, Utility Operating Income	112,336	(4,336) (8)	108,000	98,419 (24)	206,419
State Income Taxes, Utility Operating Income	30,538	(3,470) (9)	27,068	24,666 (25)	51,734
Deferred Federal Income Taxes	2,181	(2,181) (10)	0	0	0
Deferred State Income Taxes	2,181	(2,181) (11)	0	0	0
<u>Total Utility Operating Expenses</u>	<u>2,239,303</u>	<u>829,953</u>	<u>3,069,256</u>	<u>133,197</u>	<u>3,202,453</u>
<u>Net Utility Operating Income (Loss)</u>	<u>1,310,497</u>	<u>(686,198)</u>	<u>624,299</u>	<u>370,242</u>	<u>994,541</u>
Add: Interest and Dividend Income	3,706	(3,706) (12)	0	0	0
Add: Allowance for Funds Used During Construction	18,650	(18,650) (13)	0	0	0
Add: Amortization of Excess Deferred Income Taxes	0	0	0	19,880 (26)	19,880
<u>Net Income (Loss) for Return</u>	<u>1,332,853</u>	<u>(708,554)</u>	<u>624,299</u>	<u>390,122</u>	<u>1,014,421</u>
<u>Original Cost Rate Base:</u>					
Plant in Service	16,498,687	733,168 (14)	17,231,855	0	17,231,855
Accumulated Depreciation	(4,986,910)	(127,226) (15)	(5,114,136)	0	(5,114,136)
Contributions in Aid of Construction - Net	(347,654)	(3,338) (16)	(350,992)	0	(350,992)
Net Plant	11,164,123	602,604	11,766,727	0	11,766,727
Accumulated Deferred Income Taxes	(4,362)	(25,908) (17)	(30,270)	0	(30,270)
Excess Deferred Income Taxes	(438,319)	0	(438,319)	0	(438,319)
Materials and Supplies	0	0	0	0	0
Prepayments	11,014	0	11,014	0	11,014
Cash Working Capital	116,700	78,741 (18)	195,441	0 (27)	195,441
<u>Total Rate Base</u>	<u>10,849,156</u>	<u>655,437</u>	<u>11,504,593</u>	<u>0</u>	<u>11,504,593</u>
<u>Return on Rate Base</u>	<u>12.29%</u>		<u>5.43%</u>		<u>8.82%</u>
<u>Operating Margin</u>	<u>26.59%</u>		<u>11.00%</u>		<u>18.98%</u>
<u>Interest Expense</u>	<u>389,072</u>	<u>(171,060) (19)</u>	<u>218,012</u>	<u>0</u>	<u>218,012</u>